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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES	)))))	Docket No. R2013-11

VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. MOTION FOR ISSUANCE OF INFORMATION REQUEST
(October 31, 2013)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (hereinafter "Valpak"), pursuant to Rule 3001.21(a), hereby move the Commission to issue an Information Request seeking additional clarifying data and explanation from the Postal Service primarily concerning the statement of Stephen J. Nickerson submitted with the Postal Service's request on September 26, 2013. These proposed questions seek information that will amplify and clarify the Postal Service request, and particularly Mr. Nickerson's statement, and will assist the Commission in making a determination on the Postal Service's request.

In the alternative, these questions are submitted as suggested questions to be asked by the Commission at the public hearing.

1. Mr. Nickerson's statement says:

> Further, the **cost savings initiatives that are within the Postal Service's control** will not, by themselves, be sufficient to improve the Postal Service's critically low liquidity position. [P. 9, ll. 11-13 (emphasis added).]

a. Would the Postal Service not achieve net savings and an increase in liquidity from price signals designed to reduce the volume of products that do not cover its attributable cost?

b. Please explain whether the Postal Service's pricing flexibility puts such savings and increased liquidity "within the Postal Service's control."

c. If so, please explain why the Postal Service has not used this pricing flexibility "to improve the Postal Service's critically low liquidity position."

2. These questions pertain to Nickerson Statement Attachments 5 and 6, row 18, column Servicewide Costs.

a. Attachment 5, FY2013BR, shows a **decrease** of $8,425,565(000) during recently completed FY 2013 from the FY 2012 level.

(i) Are these cost reductions confirmed by preliminary FY 2013 CRA data?

(ii) Please relate this reduction in servicewide costs to the discussion of Cost Saving and Efficiency Initiatives in Section VI of the Nickerson statement (*i.e.*, for the major cost reduction initiatives described in Section VI, please indicate the amount of reduction in servicewide costs expected to result from those initiatives in FY 2013).

(iii) If these cost decreases are explained by reasons other than these Cost Saving and Efficiency Initiatives, please explain.

b. Attachment 6 shows a projected **increase** of $2,115,907(000) in servicewide costs during FY 2014 from the FY2013BR level. Please quantify and explain the major sources of servicewide cost increases projected for FY 2014. In particular, if mail volume is projected to decline in FY 2014, please explain why during that period servicewide costs are increasing so much over FY 2013.

3. These questions pertain to Nickerson Statement Attachments 4 and 11.

Attachment 11, Contribution by Class of Mail FY 2014AR, (January 26, 2014 implementation) shows total revenues of $66.174 million and total costs of $74,498 million. The difference between total revenues and costs, the projected deficit, amounts to $6,324 million. In Attachment 4, that same $6,324 million deficit is the first entry in the column headed "2014AR Forecast (January 26, 2014)," and the bottom row of that column shows an end of year Cash Balance of $2,984 million.

a. In Attachment 11, the forecasted contribution from the two **High Density Saturation** products, Letters and Flats/Parcels, respectively, is $481 and $1,197 million. If higher than forecast volumes were to materialize for these two products and their actual contribution turned out to be, respectively, $500 and $1,200 million (*i.e.*, actual contribution higher than forecast by $22 million), *ceteris paribus* would it be correct to expect that (i) the total deficit in Attachment 11 (and 4) would be reduced by $22 million, from $6,324 to $6,302 million, and (ii) the end of year cash balance on Attachment No. 4 would increase by $22 million, from $2,984 to $3,006 million, or would some of the items shown on the rows of Attachment 4 likely be affected by such a change in Attachment 11? Under this assumed change, if some amount other than $3,006 million would represent a better estimate to the cash balance on Attachment 4, please provide that amount and explain its derivation.

b. Attachment 11 projects a negative contribution from **Standard Flats** of $251 million, and a cost coverage of only 89.7 percent. If the coverage on Standard Flats were increased to 100 percent, and the aggregate $251 million deficit on account of Flats correspondingly eliminated, under this assumed outcome would you expect (i) the aggregate contribution from Standard Mail in Attachment 11 to increase by $251 million, and (ii) the total deficit in Attachment 11 (and 4) to be reduced by $251 million, from $6,324 to $6,073 million? If the model that underlies Attachments 4 and 11 contains interdependencies that would forecast a different outcome, please explain, and indicate whether you would expect aggregate contribution from Standard Mail to change by more or less than $251 million if coverage on Flats were increased to 100 percent.

c. If the contribution from **Standard Mail** shown in Attachment 11 were to increase by $251 million, and the deficit there reduced from $6,324 to $6,073 million, would that $251 million change in the deficit flow through to the end of year cash balance in Attachment 4 (under the column 2014 AR Forecast – January 26, 2014) and increase the cash balance shown there from $2,984 to $3,235 million? Or would some of the entries on the rows of Attachment 4 likely change in response to such an increase in the contribution from Standard Mail? If so, please explain.

4. Postal Service borrowing now has reached its statutory limit, as the Nickerson statement notes at p. 5, l. 4. Consequently, liquidity now reflects the Postal Service's cash balances, as shown in Table 3 and 4. Mr. Nickerson's statement explains:

> This [liquidity] problem is not adequately addressed in a normal price change for market dominant products, where **price increases are constrained by inflation,** as costs are also generally rising with (or above) inflation. [P. 5, ll. 5-8 (emphasis added).]

a. If the Postal Service changed prices annually in a manner that come closer to achieving the maximum contribution available to it under the price cap, would not the Postal Service's liquidity be less constrained by the inflation-based price cap?

b. Please explain fully why the continuing drain on liquidity imposed by underwater products cannot be "adequately addressed in a normal price change for market dominant products."

5. Mr. Nickerson's statement says:

> During 2013, the Postal Service worked to maximize the number of lower-cost non-career employees under the recently enacted contracts with its four largest unions. In 2014, we will capture the full year effects of that maximization. [P. 9, ll. 17-19.]

a. When did the "recently enacted contracts" referred to in this statement become effective?

b. Does "maximize the number of lower-cost non-career employees under the recently enacted contracts" mean that the Postal Service currently is adding a significant number of newly hired employees to its payroll? If not, please explain. If so, please indicate the number of newly hired employees through September 30, 2013.

c. Does the Postal Service currently need to hire new employees in order to process and deliver the current volume of mail?

d. Under these "recently enacted contracts", can the Postal Service lay off any of its career labor force and replace them with non-career employees?

e. Mr. Nickerson states that "additional reductions [in the labor force are] planned for the next five years." (P. 13, l. 15.) If the Postal Service plans on further — presumably meaningful — reductions in its labor force "for the next five years," why would prudent management be adding any employees currently, regardless of whether classified as career or non-career?

6. A few years ago in two separate rate dockets (Docket Nos. R2009-3 and R2010-3), the Postal Service requested authority to conduct short-term "summer sales," and justification for the proposed short-term price reductions included assertions by the Postal Service that it then had excess capacity.

a. Does the Postal Service still consider itself to have excess capacity? If not, has all previous excess capacity referred to in those prior dockets now been effectively eliminated? Please explain as necessary.

b. If the Postal Service no longer considers itself to have excess capacity, approximately when — *i.e.*, in what year and what quarter of that year — did excess capacity cease to exist as a serious operating consideration?

c. If the Postal Service now has excess capacity in its career labor force, please explain why, under such circumstances, prudent management would add any new employees, regardless of whether those new employees are classified as career or non-career.

d. Does the Postal Service now have sufficient flexibility with respect to its labor force to adjust to mail volume changes of the magnitude shown in Attachment 15, most especially the 4.1 billion decline in volume from the 2013 Forecast to the 2014AR Forecast (Jan 26, 2014)? If not, please describe briefly all rigidities, inflexibilities, or other obstacles that prevent prudent management from making appropriate cost-saving adjustments.

7. Mr. Nickerson's statement says:

> It is also extremely likely that mail volumes will continue to decline beyond 2014. First-Class Mail volumes have decreased every year since 2001, and there is no reason to believe this trend will change. [P. 10, ll. 16-19.]

a. How much of the decrease in the volume of First-Class Mail from 2001 to 2007 was due to the Great Recession?

b. Please refer to Attachment 15 to the Nickerson statement. How much of the 4.1 billion decline in volume from the 2013 Forecast to the 2014AR Forecast (Jan. 26, 2014) would you consider to be due to the Great Recession?

c. If the declining trend in First-Class Mail volume continues beyond 2014, as the Nickerson statement surmises, will any of that further decline in the volume of First-Class Mail be due to the Great Recession?

d. Is it fair to interpret this statement as saying that the decline in First-Class Mail volume is unlikely to return to prior levels even when the economy improves because the decline in volume is most likely the result of an irreversible trend resulting from diversion of mail to alternatives such as the Internet, pay-by-phone, vote-by-phone for stockholder elections, etc.? If that is not a reasonable interpretation, please explain what was meant by the above-quoted statement.

e. The 4.1 billion decline in volume from 2012 to the 2014AR Forecast (Jan. 26, 2014) reflects a decline of about 2 percent per year. If the volume of mail continues to decline at that pace, is that likely to create a recurring liquidity problem even if the exigent price increase is approved, or can the Postal Service reasonably expect to adjust its labor force and cost structure to accommodate such a decline in mail volume?

8. Mr. Nickerson's statement says:

> [T]he Postal Service made numerous cost reductions in response to the revenue loss, which have allowed it to maintain a minimal level of liquidity (excepting defaults on retiree health benefits (RHB) prefunding requirements). However, even as cost reductions are implemented, this level of liquidity is intolerably low and must, under prudent management, be increased. [P. 4, ll. 4-8.]

a. A 2011 OIG report estimated that the Postal Service could save hundreds of millions of dollars, perhaps even billions, annually by converting expensive residential door delivery to curbside delivery. *See* USPS OIG, Audit Report: Modes of Delivery, Report No. DR-AR-11-006 (July 7, 2011). Is Postal Service management currently taking advantage of this cost-reducing opportunity? If not, why not?

b. Would an initiative to convert expensive residential door delivery to curbside delivery — especially in areas where individual residences have significant setback from the street — be within the control of the Postal Service? If not, please explain why not? If so, please explain why under "prudent management" the Postal Service has not taken the initiative to achieve such cost savings.

c. Please explain how failure by the Postal Service to implement an initiative that potentially could result in potential billions of dollars in savings is consistent with a mandate to operate in an efficient and economical manner.

9. Mr. Nickerson's statement says:

> This [expected available liquidity of $4.161 billion] remains well below the level of cash that a financially sound private sector company would have, as demonstrated above. [P. 12, ll. 5-6.]

a. If the Postal Service considers this analogy with "a financially sound private sector company" to be appropriate for the Postal Service, how does it explain its persistent failure to adjust prices in a manner that any soundly-managed private sector company would do, most especially one that happens to have a liquidity problem?

b. If the Postal Service's underwater products continue to result in annual losses of hundreds of million of dollars, and the expected available level of liquidity will be as low as you indicate, how long will it be before the Postal Service will need another exigent price increase?

c. If any organization, be it the Postal Service or a private company, persistently loses money one some of its major products, what is extraordinary about the fact that sooner or later the organization runs short of cash and has a liquidity problem?

d. Please explain whether the Postal Service expects that the proposed exigent price increases for First-Class Mail (as well as other products with high coverage), will hasten or retard any long-run decline in the volume of First-Class Mail (and those other highly profitable products)?

Respectfully submitted,

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